

June 29, 2004



# Acquisition

## Controls Over Purchase Cards at Naval Medical Center San Diego (D-2004-096)

Department of Defense  
Office of the Inspector General

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*Integrity*

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### **Acronyms**

APC	Agency Program Coordinator
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
DMLSS	Defense Medical Logistics Support System
FISC	Fleet and Industrial Supply Center
GAO	General Accounting Office
GSA	General Services Administration
HMD	Head, Material Management Department
NMCSD	Naval Medical Center San Diego
PICU	Pediatric Intensive Care Unit



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

June 29, 2004

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Report on the Controls Over Purchase Cards at Naval Medical Center San Diego (Report No. D-2004-096)

We are providing this report for review and comment. This report is one in a series of reports that documents satisfaction of the requirements in Section 1007 of the "FY 2003 National Defense Authorization Act," which prescribes that the Inspector General of the Department of Defense perform periodic audits of the purchase card program. We considered comments from the Navy Bureau of Medicine and Surgery on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. Navy Bureau of Medicine and Surgery comments on Recommendations 1.c., 2., and 3.a. were responsive. We considered comments on Recommendations 1.f. and 3.b. to be partially responsive and comments on Recommendations 1.a., 1.b., 1.d., and 1.e. to be nonresponsive. We request additional comments on Recommendations 1.a., 1.b., 1.d., 1.e., 1.f., and 3.b. by August 30, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Audnorfolk@dodig.osd.mil](mailto:Audnorfolk@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Michael A. Joseph or Mr. Timothy J. Tonkovic at (757) 872-4801. See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Shelton Young", is positioned above the printed name.

Shelton R. Young  
Assistant Inspector General  
for Readiness and Logistics Support

# Office of the Inspector General of the Department of Defense

**Report No. D-2004-096**

(Project No. D2003LF-0101)

**June 29, 2004**

## **Controls Over Purchase Cards at Naval Medical Center San Diego**

### **Executive Summary**

**Who Should Read This Report and Why?** Policy makers, senior managers, purchase card program managers, and purchase card users should read this report to help identify potential problem areas in their purchase card programs. Information contained in this report identifies some of the pitfalls of the purchase card program. After reading this report, managers should review their own purchase card programs and implement the appropriate recommendations to strengthen their programs.

**Background.** This report is one in a series of reports that satisfies the requirements in section 1007, "National Defense Authorization Act for Fiscal Year 2003," for the Inspector General of the Department of Defense to perform periodic audits of purchase card programs. The purchase card is a Government-wide commercial charge card available to offices and organizations for the purchase of goods and services. The implementation of purchase card programs in DoD is intended to be a cost-saving business initiative that reforms processes and improves mission effectiveness.

**Results.** We reviewed the purchase card program at Naval Medical Center San Diego (NMCSO), California. For the 12 months ending June 2003, NMCSO had approximately 21,800 transactions for about \$38.5 million using the purchase card. Purchase card holders at NMCSO were properly appointed and trained and approving officials were assigned the appropriate span of control for reviewing cardholder purchases. We found no evidence of fraud for the 65 transactions reviewed. However, the NMCSO purchase card program did not always provide reasonable assurance that potentially abusive, improper, or unauthorized transactions would be promptly detected. Fifty-two of the 65 transactions we reviewed, valued at \$53,000, had one or more internal control weaknesses. Of the 52 transactions, 3 are considered abusive and 6 are considered improper, as defined by the General Accounting Office. Further, if the billing cycle limits had been set appropriately by NMCSO, the potential Government liability would have been reduced by nearly \$1.9 million for 18 of the 32 cardholders included in our review. Improving internal controls will provide NMCSO management with better safeguards and will reduce the financial risk that can result from abusive, improper, or unauthorized transactions.

The Commander, NMCSO should require compliance with Navy guidance and NMCSO internal operating procedures, establish administrative actions to be taken when policies and controls are abused or ignored, and establish controls over items available for purchase in the Defense Medical Logistics Support System department catalogs. See the Finding section of the report for the detailed recommendations.

**Management Actions.** NMCS D management recognized the need to improve the internal controls related to purchase approval, documentation, receipt, and reconciliation. During our audit of the NMCS D purchase card program, the Head, Material Management Department planned corrective actions to strengthen controls over the purchase card program. Additional emphasis on training and supervision of cardholders was also planned.

**Management Comments and Audit Response.** The Navy Bureau of Medicine and Surgery (the Navy) concurred with seven of the recommendations and nonconcurred with two recommendations. We considered comments on three of the recommendations to be responsive, comments on two to be partially responsive, and comments on four to be nonresponsive.

The Navy stated that it is in compliance with the Navy instruction to provide an audit trail to support decisions to use the purchase card. The Navy stated that full procurement cycle transactions are tracked in the Defense Medical Logistics Support System. We disagree with the Navy position because the Defense Medical Logistics Support System did not include source documents necessary for review to ensure items ordered and paid for were received. The Navy also stated that action was considered complete to ensure funding is available prior to any purchase card transaction. We do not agree; monthly reviews did not identify instances where proper and adequate funding was not available prior to a purchase. The Navy also stated that there was a renewed emphasis to monitor billing cycle limits. We request additional information on actions taken to adjust the billing limits for cardholders.

The Navy concurred with the recommendation to establish written actions to be taken when policies and controls are abused or ignored. We considered the comments to be responsive. The Navy nonconcurred with the recommendation to conduct semi-annual reviews of departmental catalogs to remove unused catalog records and to screen for sources of supply and for reasonableness of prices. However, the Navy agreed to periodic reviews of departmental catalogs. We accept the Navy's proposed alternative corrective action and revised the recommendation accordingly. We request details of the Navy's plan to conduct scheduled reviews of catalog record categories. We request that the Navy provide comments on the final report by August 30, 2004. See the Finding section for a discussion of management comments and audit response and the Management Comments section of the report for a complete text of the comments.

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This audit was performed to meet the requirements of Public Law 107-314, “National Defense Authorization Act for Fiscal Year 2003,” December 2, 2002, which states in section 1007:

“The Inspector General of the Department of Defense . . . perform periodic audits to identify—

- (A) potentially fraudulent, improper, and abusive uses of purchase cards;
- (B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and
- (C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.”

## Background

**Federal Purchase Card Program.** The purchase card is a Government-wide commercial charge card available to offices and organizations for the purchase of goods and services. Purchase cards can also be used for making contract payments. The General Services Administration (GSA) awarded the first Government-wide purchase card contract in 1989. Public Law 103-355, “The Federal Acquisition Streamlining Act of 1994,” October 1994, established \$2,500 as the micro-purchase threshold and eliminated most of the procurement restrictions for the purchases identified within that threshold. A micro-purchase is an acquisition of supplies or services in which the aggregate amount does not exceed \$2,500. In 1995, the Federal Acquisition Regulation designated the purchase card as the preferred method to pay for micro-purchases. In April 2002, GSA published “Blueprint For Success: Purchase Card Oversight” to serve as an information source for preventing and detecting misuse and fraud with Government purchase cards.

DoD organizations are responsible for distributing cards, training employees, and managing the daily aspects of the purchase card program. Each participating organization designates an office to manage the program, which includes ensuring that training is provided, maintaining a current list of cardholders and approving officials, and performing an annual oversight review of the program. Also, designated approving officials authorize and approve purchases for payment. Once a cardholder makes an authorized purchase, the cardholder and approving official reconcile the purchased goods and services with the bank statement, and the approving official requests payment by the Defense Finance and Accounting Service (DFAS).

The implementation of purchase card programs in DoD is intended to be a cost-saving business initiative that reforms processes and improves mission effectiveness. The purchase card program allows DoD to replace the time-consuming purchase order process, thus reducing procurement lead-time,

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transaction cost, and procurement office workload and facilitates a less costly payment process.

According to the Department of the Navy eBusiness Operations Office's September 2002 update on its purchase card program, the Navy used the purchase card for 98 percent of all its requirements under \$2,500. As of September 2002, the Navy stated that its annual transaction volume was 2.8 million purchase card transactions that represented an annual total dollar value of approximately \$1.8 billion.

**Purchase Card Joint Program Management Office.** The Deputy Secretary of Defense established the Purchase Card Joint Program Management Office in March 1998 to provide a centralized program management structure over the purchase card program. The Program Management Office reports to the Director, Defense Procurement and Acquisition Policy, within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Program Management Office is staffed with representatives from each of the Military Departments, the Defense Logistics Agency, and DFAS. Finance and accounting issues are coordinated with the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The Program Management Office responsibilities include promoting purchase card use, coordinating contract requirements within GSA, managing delinquencies, deploying a standard DoD-wide management and reconciliation system, and developing DoD-wide training.

**DoD Charge Card Task Force.** On March 19, 2002, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established a DoD task force to examine the management of DoD purchase card programs. The task force was comprised of representatives from a broad range of DoD organizations in consultation with non-DoD organizations. The goal of the task force was to develop recommendations to improve DoD purchase card programs without adversely affecting the effectiveness of the programs. On June 27, 2002, the task force issued the "Department of Defense Charge Card Task Force Final Report." The task force developed 25 recommendations to improve the DoD purchase card program. The recommendations included increasing management's emphasis of the program and personal accountability and implementing improved management metrics. The recommendations also included strengthening internal controls, increasing the tools available to managers for enforcing those controls, and enhancing the capability of the workforce to accomplish assigned purchase card responsibilities.

**Naval Medical Center San Diego Purchase Card Program.** Naval Medical Center San Diego (NMCSDD), California, designated the Material Management Department as the office to manage its purchase card program. As of June 2003, the NMCSDD purchase card program consisted of one agency program coordinator (APC), one alternate APC, 142 active cardholders, and 78 approving officials. For the 12 months ending June 2003, NMCSDD had approximately 21,800 transactions for about \$38.5 million using the purchase card.

NMCSDD uses the Defense Medical Logistics Support System (DMLSS) for committing funds for subsequent purchase card acquisitions. Each NMCSDD department has its own operational funding target, which is a level of approved

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funding for that department's specific expense account. Purchases recorded through DMLSS commit funds for that specific expense account. Once the purchase card billing statement is received and approved for payment, funds are disbursed by DFAS.

## **Objectives**

The overall audit objective was to evaluate the military health system's issuance and use of purchase cards. Specifically, we evaluated the appropriateness of purchases and the controls over the use of purchase cards at NMCS D. We also evaluated the management control program as it related to the audit objectives.

Our intention was to evaluate the purchase card program throughout the military health system. We planned a phased approach to assess the purchase card program at military treatment facilities in each Military Department beginning with the Navy at NMCS D. However, travel fund limitations during 2003 and the reassignment of audit staff to statutory audit requirements caused us to limit our review to NMCS D. Because of the increased focus on the purchase card program throughout DoD, we do not plan to do further work at this time on the use of purchase cards in the military health system. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program, and see Appendix B for prior coverage.

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## Naval Medical Center San Diego Purchase Card Program

Purchase card holders at NMCS D were properly appointed and trained, and approving officials were assigned the appropriate span of control for reviewing cardholder purchases. For the 65 transactions reviewed, there was no evidence of fraud. However, the NMCS D purchase card program did not always provide reasonable assurance that potentially abusive, improper, or unauthorized transactions would be promptly detected. That occurred because established purchase card program internal control procedures were not fully implemented by NMCS D management, the APC, transaction approving officials, or individual cardholders. For example, 52 of the 65 transactions reviewed, valued at \$53,000, had one or more internal control weakness. We considered 9 of the 52 transactions to be abusive or improper, as defined by the General Accounting Office (GAO). Improving internal controls will provide NMCS D management with better safeguards and will reduce the financial risk that can result from abusive, improper, or unauthorized transactions. Further, by appropriately setting billing cycle limits, the potential Government liability at NMCS D would have been reduced by nearly \$1.9 million for 18 of the 32 cardholders included in our review.

### Criteria

GAO Report No. GAO-03-678G, "Auditing and Investigating the Internal Control of Government Purchase Card Programs," May 2003, defines three types of purchases that are not in accordance with laws and regulations as abusive, improper, or unauthorized. Abusive purchases are those that are intended for Government use but for which there is no valid requirement or which are purchased at an excessive cost. Improper purchases are also for Government use but are not permitted by law, regulation, or DoD policy. Improper purchases include purchases that are split in order to avoid the \$2,500 micro-purchase threshold and purchases from other than mandatory sources of supply. Unauthorized purchases are not for Government use and are not permitted by law. Unauthorized purchases are considered potentially fraudulent when items appear to be for personal use.

On September 19, 2002, the Department of the Navy Purchase Card Program Management Office issued the eBusiness Operations Office Instruction 4200.1, "Department of the Navy Policies and Procedures for the Operation and Management of the Government Commercial Purchase Card Program" (the Navy Instruction). The Navy Instruction was subsequently updated on September 3, 2003. The Navy Instruction includes general policies and procedures for management of the program and establishes internal controls that include review responsibilities. Specifically, the Navy Instruction describes items that are not allowed for purchase card procurement such as travel and travel-related expenses. The Navy Instruction also requires supporting documentation for purchases so that approving officials and other management personnel can oversee the

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transaction process. Additionally, the Navy Instruction requires adherence to established internal control policies in order to ensure that transactions are for mission-essential requirements, are adequately funded from appropriate sources of supply, and that the Navy only pays for items that are received.

## **Oversight and Purchase Card Program Internal Controls**

NMCS D purchase card holders were properly appointed and received required training. In addition, approving officials, who perform oversight of transactions, were assigned the appropriate span of control for reviewing cardholder purchases. However, the purchase card program did not always provide reasonable assurance that potentially abusive, improper, or unauthorized transactions would be promptly detected.

For the 65 transactions reviewed, there were no unauthorized purchase card transactions. Additionally, there was no evidence that fraud occurred during the 65 transactions. However, 52 of the 65 transactions had one or more internal control weaknesses. Internal control weaknesses included:

- inadequate technical reviews,
- lack of assurance of proper and adequate funding before purchases were made,
- lack of supporting documentation for the purchase,
- inadequate or missing receipt and acceptance documentation, and
- certification for payment without supporting documentation.

Of the 52 transactions with internal control weaknesses, we considered 3 to be abusive transactions and 6 to be improper transactions.

**Abusive or Improper Transactions.** The nine transactions that we considered abusive or improper may have been prevented, reduced to mission-essential requirements, or promptly detected for corrective action if internal controls had been properly implemented. While we agree that most of the purchases appeared to have been needed at NMCS D, NMCS D personnel should have provided better oversight of the nine transactions.

We considered three transactions to be abusive because the purchases were in excess of a documented need or were at an excessive cost. Purchase card holders are required to purchase only mission-essential requirements at fair and reasonable prices. Two transactions that we considered abusive were the purchase of a digital camera and digital camcorder. The items were considered excessive in requirement and price. The other abusive transaction was for designer protective eyewear for the operating room. We considered the eyewear transaction to be a purchase that was made at excessive cost.

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We considered six transactions to be improper because the purchases were not permitted by law, regulation, or DoD policy. Cardholders are not permitted to split requirements to avoid exceeding the micro-purchase threshold of \$2,500. Two of the improper purchases were considered a split purchase to avoid the micro-purchase threshold limit. The cardholder advised us that a \$4,900 requirement for blue and white stencils was intentionally split so that the transaction could be completed with a purchase card.

One of the improper purchases was for food and refreshments, valued at \$207, which are not permitted by law. The APC identified this transaction during a semi-annual review; however, the finding did not result in disciplinary action. Personnel involved with the transaction were not held accountable for the misuse of appropriated funds; however, counseling was provided to the current approving official.

The other three improper transactions were completed using convenience checks. Convenience checks can be used only after every attempt has been made to use the purchase card. One check was written without exhausting all attempts to use the purchase card for the items needed. Another check was written for travel expenses of a non-military doctor who assisted in the treatment of a sailor at NMCS D. The expenses should have been paid using another method, such as invitational travel orders. The third check was written directly to a laboratory technician for laboratory tests that were completed at Veterans Affairs facilities. That transaction was referred to the Veterans Affairs Inspector General. A complete discussion of the nine abusive or improper transactions is in Appendix C.

Implementation of internal controls should provide NMCS D management with reasonable assurance that the goals and objectives of its purchase card program are met and will provide safeguards against abusive, improper, or unauthorized transactions.

**Internal Control Weaknesses.** The following table summarizes the internal control weaknesses and the number of occurrences for the 65 transactions we selected for review. The table is followed by a discussion of each type of internal control weakness.

Summary of Internal Control Weaknesses at NMCS D for 65 Transactions Reviewed*	
Internal Control Weakness Identified	Number of Transactions With Identified Weakness
Technical review	4
Assurance of proper and adequate funding before purchase	3
Supporting documentation	43
Receipt and acceptance documentation	4
Approving official certification for payment without supporting documentation	38
*Some transactions had more than one internal control weakness.	

**Technical Review.** There were four transactions, ranging in value from \$436 to \$1,000, where the items were not properly screened by NMCS D personnel. The Navy Instruction requires cardholders to screen all requirements for their availability from mandatory Government sources of supply. Cardholders are also required to purchase only mission-essential items at fair and reasonable prices from responsible suppliers. Additionally, NMCS D personnel indicated that cardholders are required to determine if items are available through a prime vendor, which is a preferred source of supply.

Prime vendor agreements are the primary distribution channel for procurement and delivery of a full range of commercial brand-specific pharmaceuticals and medical or surgical supplies to a group of military treatment facilities in a given geographical region. Pricing of items ordered through the prime vendor program is determined by distribution and pricing agreements negotiated between the Defense Supply Center Philadelphia and the manufacturer or distributor. The prime vendor program provides access to more than one million items of medical material.

In order to utilize DMLSS, each item must be available in the department's catalog of approved items. NMCS D personnel indicated that the screening of requirements is completed by technical review personnel using a new item request process. Technical review personnel are responsible for maintaining the individual departmental catalogs. To have an item added to a catalog, a new item request must be completed by the requesting department with justification and appropriate departmental approval. Technical review personnel determine if the item is related to the mission; is reasonably priced; is available through a preferred source of supply, such as a prime vendor; and if special approvals are required from departments, such as information technology or media services. After technical review personnel complete the new item request process, the new item request is either approved and added to the department's catalog, disapproved, or returned to the requesting department for further justification.

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For one transaction, a cardholder ordered one case of syringe insulin from the vendor who has the prime vendor agreement at NMCS D. Although the insulin was available through the prime vendor agreement, the cardholder did not take advantage of the prime vendor agreement but instead ordered the insulin directly through the vendor. The new item request was received and reviewed; however, it was not discussed with the prime vendor representative to determine if the item was available. As a result, NMCS D paid an additional \$272 for the syringe insulin, which could have been avoided if an adequate technical review had been accomplished prior to adding the item into the department's catalog.

According to NMCS D personnel, technical review personnel are responsible for maintaining the departmental catalogs. Once an item is entered into a catalog, the cardholder can purchase the item until it is removed. Many items added to departmental catalogs are non-recurring requirements; however, there are no controls in place to keep cardholders from repeatedly purchasing an item without going through the proper approval process. Non-recurring items should be removed from departmental catalogs after payment has been confirmed, which would prevent cardholders from purchasing items or quantities of items that technical review personnel believe are inappropriate. Additionally, recurring requirements that are in a departmental catalog should be reviewed on a semi-annual or other recurring periodic basis to screen for mandatory source of supply and a reasonable price.

**Availability of Funds.** For three transactions, ranging in value from \$207 to \$2,480, cardholders did not utilize DMLSS before the purchase to ensure that proper and adequate funding was available. The Navy Instruction requires cardholders to ensure that proper and adequate funding is available prior to any purchase card transaction. In order for cardholders to comply with this requirement, NMCS D Internal Operating Procedures state that with the exception of reimbursable requirements, the cardholder must utilize DMLSS for purchase card transactions. DMLSS allows cardholders to view the remaining balance of the budget target for their respective department's expense account. By utilizing DMLSS, cardholders are able to ensure that funds are available for a purchase prior to committing funds to complete the transaction. Although adequate funding was ultimately available for the three transactions, cardholders did not ensure that proper and adequate funding was available prior to initiating the transaction.

For example, a cardholder utilized DMLSS to commit funds for one box of high-density thermal printing paper. After committing funds for only one box, the cardholder recognized the need for four additional boxes. The order was completed for five boxes in the amount of \$245, resulting in a commitment of funds for one box and a subsequent expenditure of funds for five boxes. Before completing the purchase, the cardholder had only verified that funds were available for one box of paper. The additional four boxes that were ordered resulted in an unrecorded obligation of funds for the purchaser's department.

**Supporting Documentation.** For 43 of the 65 transactions reviewed, which ranged in value from \$18 to \$2,480, NMCS D personnel did not prepare or maintain adequate documentation to support the mission-essential need or the quantity ordered. "DoD Government Purchase Card Concept of Operations,"

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March 31, 2003, states that a mission-essential requirement must exist before a decision is made to use the purchase card and that the item is appropriate for purchase. The Navy Instruction states that purchase card documentation should provide an audit trail supporting the decision to use the purchase card and should include any special approvals that are necessary to justify the purchase. Transaction files should be all-inclusive and auditable without going to the cardholder for after-the-fact justification. Additionally, supporting documentation should be located in each transaction file. Supporting documentation provides approving officials and other reviewing officials the opportunity to determine whether there is ongoing adherence to established internal control policies.

On one transaction, the cardholder purchased three computers for \$2,214. The cardholder generated the purchase request and then purchased the items from that self-generated request. There was no documentation or justification as to who authorized the purchase of the computers or why the cardholder ordered three computers. According to the cardholder, he could not remember who told him to order the computers for the department. We located the computers and verified that they were in use by NMCS D departmental personnel.

**Receipt or Acceptance Documentation.** For four transactions, ranging in value from \$280 to \$2,480, adequate receipt or acceptance documentation was missing. The Navy Instruction requires appropriate receipt and acceptance documentation to accompany the monthly purchase card statement for review by the approving official. Additionally, the Instruction requires the approving official to ensure that proper receipt, acceptance, and inspection is accomplished on all items. Receipt and acceptance documents assist personnel in reconciling ordered quantities to those quantities actually received and also demonstrate whether the ordering and receiving individual were the same person.

In one instance, a contract payment for \$2,118 was made for contracted laboratory supplies without documentation that the supplies were received. The cardholder verified that a package was received from the company but could not verify the contents. According to a representative from the laboratory, the supplies were received; however, he could not say when or how many supplies were received.

**Approving Official Certification for Payment.** For 38 transactions, ranging in value from \$18 to \$2,480, approving officials certified transactions for payment even though appropriate and complete transaction documentation was not available. The Navy Instruction states that cardholders should purchase only mission-essential items and requires approving officials to ensure that all purchases made by cardholders within their cognizance are appropriate. Additionally, the approving official is required to verify that the transaction documentation is appropriate and complete prior to certification for payment.

In one instance, the cardholder ordered five cases of oxygenators for a specific patient. Upon review, the cardholder noted that he had ordered the incorrect item. According to the cardholder, the order was verbally changed with the vendor for eight different oxygenators. The cardholder did not document the change on the purchase order. The receiving report showed that two cases of oxygenators were

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received and that NMCS D personnel marked out the word “partial” and wrote “full” on the receiving report, indicating that all oxygenators had been received. The company invoice showed that eight oxygenators were shipped. Additionally, the invoice was annotated, stating that it was paid in full by check. There was limited and ambiguous documentation to support this transaction; however, the approving official certified the purchase card statement for payment.

Examples of purchases that were approved as being mission essential without supporting documentation were:

- latex prosthetics and stage blood used during triage training exercises,
- an industrial wastewater control permit, and
- designer protective eyewear for operating room use.

**Other Weaknesses.** Seventeen of the 32 cardholder billing cycle limits reviewed had excessive limits, ranging from \$600 to \$68,000. The Navy Instruction states that each cardholder’s account and delegation of spending authority shall include a billing cycle purchase limit. On a semi-annual basis, the APC is responsible for reviewing a cardholder’s expenditures for the previous 12 months. To establish the appropriate billing cycle purchase limit, the APC should select the highest expenditure for the previous 12 months and add 20 percent. When the billing cycle limit for a cardholder is too high, it increases the risk to the Government that unauthorized purchases could be made.

One cardholder’s approved limit was significantly less than the limit established at the bank, which also increases the risk to the Government. The approved limit for this cardholder was \$600,000; however, the established bank limit was \$2.25 million. If the billing cycle limits had been set appropriately by NMCS D, the potential Government liability would have been reduced by nearly \$1.9 million for the 18 cardholders.

Additionally, in the 12-month period ending June 2003, there were five instances of cardholders exceeding their established billing cycle limits by a total of \$418,000. Approving officials are also responsible for reviewing transactions before certifying a cardholder’s monthly statement for payment. Approving officials should verify that purchase card holders do not spend above their approved limits without prior consent from the APC through a temporary delegation of authority. Additionally, during the semi-annual review, the APC should ensure that cardholders do not exceed their authorized billing cycle limits.

A viable system of internal controls will minimize losses and will help NMCS D management to ensure that purchase cards are used for only Government requirements that are within the guidelines of its purchase card program. Continuous compliance with internal controls will reduce the vulnerability and financial risk at NMCS D and will provide management with additional safeguards against fraud, waste, and abuse of the purchase card program. See Appendix A for a discussion of management controls.

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## Management Actions

During our audit of the NMCS D purchase card program, material management personnel planned to take corrective actions to strengthen controls over the purchase card program. While NMCS D management did not agree with all of our conclusions, it recognized the need to improve the internal controls related to purchase approval, documentation, receipt, and reconciliation.

As of September 2003, NMCS D had made plans to emphasize training and supervision of cardholders. Additional initiatives to strengthen controls were also in progress. Examples include:

- monthly training sessions for cardholders and approving officials,
- revised letters of delegation requiring cardholders and approving officials to acknowledge that they understand their responsibilities, and
- implementation of a disciplinary program for cardholders and approving officials.

## Recommendations, Management Comments, and Audit Response

**Revised Recommendation.** As a result of management comments, we revised draft Recommendation 3.b. to clarify the frequency of reviews of departmental catalogs.

**We recommend that the Commander, Naval Medical Center San Diego:**

**1. Require cardholders, approving officials, and the agency program coordinator to comply with Department of the Navy eBusiness Operations Office Instruction 4200.1 and NMCS D Internal Operating Procedures for:**

**a. Providing an audit trail to support the decision to use the card, including any special approvals that are required.**

**b. Providing appropriate documentation of receipt and acceptance with the monthly purchase card statements to the approving official.**

**c. Purchasing only mission-essential requirements and ensuring that all purchases made by the cardholders are appropriate.**

**d. Ensuring that proper and adequate funding is available prior to any purchase card transactions.**

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**e. Verifying the accuracy and completeness of transaction documentation prior to certifying for payment.**

**f. Reducing billing cycle limits to 20 percent above the largest billing statement amount over the last 12 months.**

**Navy Comments.** With the exception of Recommendation 1.b., the Navy Bureau of Medicine and Surgery (the Navy) concurred with Recommendation 1. The Navy stated that NMCS D complies with the Navy Instruction and NMCS D internal operating procedures. The Navy also stated that NMCS D uses DMLSS to track the full procurement cycle of purchase card transactions. The Navy stated that DMLSS provides an electronic record of the complete transaction history and did not agree that NMCS D needs to comply with procedures for providing receipt and acceptance documentation with monthly purchase card statements. The Navy stated that purchases made by NMCS D cardholders were mission essential and that APC monthly reviews are designed to identify any post-obligation funding increases. The Navy stated that the mission essential requirement for particular purchases is apparent to purchase card holders, due to their familiarity with the various departments and clinics throughout NMCS D. Nevertheless, the Navy is conducting training for its cardholders to electronically document the files as to the nature and requirement of the purchase. Additionally, the Navy stated that APC monthly reviews are designed to identify any post-obligation fund increase activity. The Navy also stated that NMCS D holds monthly training sessions and closely monitors approving official and cardholder activity to ensure they follow the proper procedures. Finally, the Navy stated that there is a renewed NMCS D emphasis for command APCs to monitor individual billing cycle limits.

**Audit Response.** We consider the Navy comments on Recommendation 1.c. to be responsive, comments on Recommendation 1.f. to be partially responsive, and comments on Recommendations 1.a., 1.b., 1.d., 1.e. to be nonresponsive. We request that the Navy provide additional comments in response to the final report for Recommendations 1.a., 1.b., 1.d., 1.e., and 1.f.

We disagree that DMLSS provides adequate documentation to support decisions to use the purchase card, including any special approvals that are required. For 43 of 65 transactions reviewed, cardholders did not prepare or maintain adequate documentation to support the mission-essential need or the quantity of the item ordered. The lack of documentation supporting the requirements and the appropriateness of the transactions was not in accordance with the Navy Instruction that requires an audit trail supporting the decision to use the purchase card. In response to the final report for Recommendation 1.a., we request that the Navy provide comments on how it plans to ensure that transaction audit trails supporting decisions to use the purchase card are available in DMLSS.

The Navy did not concur with Recommendation 1.b. and stated that DMLSS provides an electronic record of the complete purchase card transaction history that satisfies Navy requirements for receipt and documentation. The Navy Instruction requires that purchase card holders provide an audit trail supporting the decision to use the purchase card. Supporting documentation includes, but is not limited to, accurate receipt and acceptance documentation for review by the

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approving official. Receipt and acceptance documents were not available to support receipt postings in DMLSS for four transactions that we reviewed. As a result, we do not believe that NMCS D had assurance that items ordered and paid for were received. For example, one transaction, discussed in Appendix C, paid for 900 coccidioidomycosis tests for which there were no receiving or acceptance reports. We were not able to validate that services ordered were received because a list of patients tested was not available. The order was paid based on an invoice submitted by the vendor, reviewed and approved after the order was completed, and electronically recorded as received after notification of payment by the convenience check clerk. In response to the final report for Recommendation 1.b., we request that the Navy reconsider its position and provide additional information on how NMCS D plans to comply with Navy requirements for providing to the approving official appropriate documentation of receipt and acceptance with the monthly purchase card statements.

The Navy concurred with Recommendation 1.c. and no further action is required. We reported that 38 of 65 transactions reviewed were approved for payment even though the required documentation was not available. Training the cardholders to document transaction files as to the nature and requirement of each purchase should provide a basis for approving officials to determine that transactions are mission essential and appropriate.

The Navy concurred with Recommendation 1.d., but we do not consider the comments to be responsive. Approving officials and the APC reviewed the three transactions discussed in the Finding section of this report but did not identify that cardholders had not determined whether proper and adequate funding was available prior to initiating the transactions. The Navy should emphasize to cardholders as well as reviewing officials the need to verify appropriate funding prior to any purchase card transaction. In response to the final report for Recommendation 1.d., we request that the Navy provide additional information on its plans to ensure compliance with the Navy Instruction and with procedures requiring that cardholders ensure the availability of proper and adequate funding prior to initiating a transaction. We also request comments concerning approving official and APC compliance with procedures to ensure that proper and adequate funding is available prior to initiating a transaction.

The Navy concurred with Recommendation 1.e., but we do not consider the comments to be responsive. Although approving officials had been trained, they approved 38 transactions for payment when appropriate and complete transaction documentation was not available. In response to the final report for Recommendation 1.e., we request that the Navy provide additional information on how NMCS D plans to comply with the Navy Instruction that requires approving officials and the APC to ensure that all purchases are appropriate and that purchase documentation is complete prior to certifying the transaction for payment.

The Navy concurred with Recommendation 1.f.; we consider the comments to be partially responsive because of the Navy's renewed emphasis for APCs to

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monitor and adjust billing cycle limits. In response to the final report for Recommendation 1.f., we request that the Navy provide additional information describing actions initiated and completed as a result of its renewed emphasis on billing cycle limits.

**2. Establish, in writing, appropriate administrative action to be initiated when policies and controls have been abused or ignored.**

**Navy Comments.** The Navy concurred and stated that the Navy Instruction provides detailed disciplinary guidelines for both civilian and military personnel who abuse or ignore purchase card operating procedures. The Navy also stated that NMCSO has established written procedures and sample letters that can be customized based on the severity of abuse.

**Audit Response.** The Navy's comments are responsive. On September 3, 2003, after our visit to NMCSO, the Navy updated the Navy Instruction. The updated guidance provides corrective, disciplinary, or adverse actions that may be taken against employees who misuse or abuse the purchase card.

**3. Establish internal controls that are designed to prevent or detect fraud, waste, and abuse of the purchase card program. At a minimum, the internal controls should include emphasis on the following:**

**a. Removal of specialty items from departmental catalogs after payment has been confirmed.**

**b. A semi-annual or other recurring periodic review of departmental catalogs in order to remove unused catalog entries and screen for sources of supply and reasonableness of prices.**

**Navy Comments.** The Navy concurred with Recommendation 3.a. and stated that catalog maintenance of all items purchased at NMCSO continues to be an ongoing process. The Navy also stated that NMCSO submitted a system change request to the DMLSS program office requesting a DMLSS modification that will allow one-time purchase items to be tagged so that they cannot be purchased again. The Navy also stated that NMCSO established manual monitoring procedures to remove one-time purchase items from customer catalogs. The Navy nonconcurred with Recommendation 3.b. and stated that screening for sources of supply and reasonableness is performed at the new item request stage. The Navy stated that screening each of the 60,000 catalog records would not be feasible on a semi-annual basis but said that screening of specific categories for sources of supply occurs periodically. The Navy cited the example of screening all ink pens in the NMCSO catalogs to ensure they were procured from a reliable source.

**Audit Response.** Navy comments on Recommendation 3.a. are fully responsive. We consider the Navy comments on Recommendation 3.b. to be partially responsive. We agree that a complete semi-annual review of 60,000 catalog records could be impractical and agree that periodic screening of specific record categories is a positive step to screen for appropriate sources of supply and reasonableness of prices. Accordingly, we revised draft Recommendation 3.b. to

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include other recurring reviews of NMCSD catalog records. In response to the final report, we request that the Navy provide information on its plans to conduct regularly scheduled reviews of catalog record categories.

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## Appendix A. Scope and Methodology

We reviewed Federal legislation, DoD, GSA, Navy, and NMCS D guidance related to the management of the purchase card program and the acquisition process. The guidance was dated from October 1994 through July 2003. We also assessed NMCS D compliance with the guidance.

At NMCS D, we evaluated the effectiveness of internal controls and the appropriateness of purchase card transactions. Specifically, we evaluated the effectiveness of technical reviews; availability of funding before purchases were made; supporting documentation for the purchase, receipt, and acceptance documentation; and certification for payment process. We reviewed transactions completed from July 1, 2002, through June 21, 2003. For that time period, there were 21,827 transactions that were completed by NMCS D purchase card holders.

Data mining techniques, research methods, and judgmental selection were used to select transactions and individual cardholders for review. The Data Mining Division of the Office of the Deputy Inspector General for Auditing of the Department of Defense obtained purchase card transaction information from the Defense Manpower Data Center (DMDC). The Data Mining Division extracted and examined NMCS D transactions and identified transactions for review. Additionally, we judgmentally selected transactions for review based on our analysis of the DMDC information. In all, we reviewed 65 transactions from the DMDC database carried out by 32 cardholders, totaling approximately \$66,000.

A thorough review of each transaction was completed. Each available cardholder and approving official was interviewed. When personnel were no longer available, supervisors and requesting officials were interviewed. We interviewed personnel in the information technology department, the media services department, the library, and the safety department to determine if purchases from the 65 transactions were within hospital standards. For some transactions, audit personnel had to trace property from room to room or in different locations on the hospital compound. Personnel in the Material Management Department were interviewed to determine if items had gone through proper scrutiny before the transactions were completed. Because of the lack of supporting documentation, each transaction had to be reviewed in detail to determine the appropriateness.

We reviewed the purchase request, the purchase approval process, and the payment approval process. Additionally, we verified that all employees had received required training within the mandated time frame, that all cardholders had valid letters of appointment, and that the number of cardholder accounts were within the required approving official span of control limitation. We evaluated the account reconciliation and certification process, the property receiving and accountability process, and the single purchase limits and billing cycle purchase limits for the 32 cardholders.

**Analytical Approach.** Data mining is the process that discovers correlations, patterns, and trends by sifting through large repositories of data using pattern-recognition technologies and statistical techniques. Data mining is useful for identifying transactions that have a high risk of being inappropriate. We

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applied data mining technology to the 21,827 purchase card transactions dated July 1, 2002, through June 21, 2003.

For the 21,827 transactions, we applied queries that were developed by DFAS. The queries for abusive, improper, or unauthorized transactions included indicators that were designed to identify transactions in the NMCS D purchase card database that represent a particular characteristic indicating a lack of compliance or potential abuse. Some of the indicators included in the queries were:

- repetitive buying patterns and even-dollar purchases,
- multiple small charges by two to five cardholders with the same vendor,
- repetitive buying pattern near purchase card limits,
- multiple credits from the same vendor,
- issuance of frequent replacement cards, and
- weekend or holiday purchases.

Because data mining is a technology, not an overall solution, we also performed judgmental queries of the NMCS D purchase card database. We searched for vendors that did not appear to have a logical business interest with a military treatment facility, such as consumer electronic stores or club warehouse retailers. We also searched for other questionable vendors, such as home improvement stores, restaurants, stationers, and variety discount stores.

We performed this audit from May 2003 through April 2004 in accordance with generally accepted government auditing standards. During this time, the audit was suspended for 4 months. Travel fund limitations during 2003 and the reassignment of the audit staff to emerging statutory audit requirements caused us to limit our review to NMCS D. Because of the increased focus on the purchase card program throughout DoD, we do not plan to do further work at this time on the use of purchase cards in the military health system.

**Use of Computer-Processed Data.** We relied on computer-processed data provided by DMDC to achieve the audit objectives. Although we did not perform a formal reliability assessment of the computer-processed data, we tested the reliability of the data for each transaction selected for review. Additionally, we compared cardholder monthly purchase card statements to the computer-processed data and found only non-material errors. The reliability of the data from the 65 transactions we reviewed was sufficient to support our conclusions.

**Use of Technical Assistance.** Personnel from the Data Mining Division of the Office of the Deputy Inspector General for Auditing of the Department of Defense assisted in the application of the DFAS indicator queries.

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**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD high-risk area to improve processes and controls to reduce contract risk.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed controls related to the adequacy of policies and oversight of the NMCS D purchase card program. We also assessed NMCS D's self-evaluation applicable to those controls.

**Adequacy of Management Controls.** We determined that five of the seven management controls related to the purchase card program had the potential for problems. The controls appeared to be in place when reviewed, but were not functioning adequately. Because we visited only NMCS D, we are not making a judgment on the materiality of the weaknesses identified.

**Adequacy of Management's Self-Evaluation.** The Department of the Navy, Bureau of Medicine and Surgery identified the purchase card program as a high-risk area. The Bureau of Medicine and Surgery guidance requires that purchase card programs be assessed annually to determine if material weaknesses exist. In September 2002 and August 2003, the Navy Fleet and Industrial Supply Center (FISC) completed an annual review of the NMCS D purchase card program. Each review evaluated 125 transactions against 6 critical elements. In September 2002, there were 16 deficiencies found in the areas of unsupported questionable items, misuse of the purchase card, and failure to use mandatory sources of supply. In August 2003, there were five deficiencies found. Both reviews found the purchase card program at NMCS D to be acceptable.

In FY 2002, NMCS D Command Evaluation and Integrity Office used the FY 2002 FISC report as a substitute for the FY 2002 assessment. Command evaluation personnel conducted the FY 2003 purchase card program review and found that questionable and prohibited items were purchased and that supporting documentation was not available. In FY 2003, command evaluation also conducted an assessment of convenience checks and found lack of training for the check cashier and lack of documentation over the payment process to be weaknesses. Our results were generally consistent with the NMCS D Command Evaluation and Integrity Office findings.

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## Appendix B. Prior Audit Coverage

During the last 5 years, the General Accounting Office (GAO), the Inspector General of the Department of Defense (IG DoD), the Naval Audit Service (NAS), and the Navy Fleet and Industrial Supply Center (FISC) have issued 11 reports discussing the Department of Navy purchase card program. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

Purchase cards carry with them an inherent risk of abuse or misuse, and recent audit reports provide evidence of failures of internal control systems designed to mitigate this risk. Purchase card audits and investigations reveal incidents of misuse, abuse, and fraud. Causes include inadequate command emphasis and poorly enforced internal controls. IG DoD Report No. D-2002-029, "Summary Report: DoD Purchase Card Program Audit Coverage," December 27, 2001, identifies systemic issues within the purchase card program. These systemic issues included account reconciliation and certification, administrative controls, management oversight, property accountability, purchase card use, separation of duties, and training.

### GAO

GAO Report No. 03-168, "Internal Control Activities Need Improvement," October 2002

GAO Report No. 02-1041, "Navy Is Vulnerable to Fraud and Abuse But Is Taking Action To Resolve Control Weaknesses," September 2002

GAO Report No. 02-32, "Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," November 2001

### IG DoD

IG DoD Report No. D-2003-109, "Summary Report on Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003

IG DoD Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002

IG DoD Report No. D-2002-029, "Summary Report: DoD Purchase Card Program Audit Coverage," December 27, 2001

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## **Navy**

FISC San Diego ltr 4200 Ser 210/3-376, "Annual Review/Audit of Purchase Card Program," August 4, 2003

FISC San Diego ltr 4200 Ser 230/2-501, "Annual Review/Audit of Purchase Card Program," September 30, 2002

NAS Report No. N2002-0070, "Naval Facilities Engineering Command Commercial Purchase Card Program," August 14, 2002

NAS Report No. N2002-0051, "Naval Sea Systems Command Commercial Purchase Card Program," May 29, 2002

NAS Report No. N2002-0023, "Management of the Purchase Card Program at Public Works Center, San Diego, CA," January 10, 2002

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## Appendix C. Transactions at Naval Medical Center San Diego

Of the 65 transactions we reviewed, there were no unauthorized or potentially fraudulent transactions. However, there were nine abusive or improper transactions that are discussed below.

**Convenience check #122** for \$2,250 dated September 27, 2002, was made payable to a laboratory technician testing for coccidioidomycosis at the Veterans Affairs Medical Center San Diego. The check paid for 900 tests ordered by the Naval Medical Center Division of Infectious Diseases. The Veterans Affairs laboratory technician submitted an invoice billing the Government for the tests on September 26, 2002. There was no receiving report, but we were advised by division personnel that test results were entered directly into patients' records. We were not able to validate that test results were received because there was no list of patients tested. The order was electronically recorded as received on October 1, 2002, after notification of payment by the convenience check clerk. The Acquisition Division was not involved in ordering the tests. The Head, Material Management Department (HMD) advised us in an August 25, 2003, memorandum that Veterans Affairs could not perform the testing due to heavy workload and that Veterans Affairs apparently authorized the technician to perform the tests using the Veterans Affairs facility after his normal working hours. That transaction was considered improper and was referred to the Veterans Affairs Inspector General to determine if laboratory technicians at Veterans Affairs are permitted to use Government facilities for after-hours work. For this transaction, documentation justifying the need for Veterans Affairs to perform the tests was not prepared prior to the order, there was inadequate receipt and acceptance documentation for the 900 tests, and the purchase was reviewed and approved after the order was completed.

**Convenience check # 144** for \$1,580 dated February 3, 2003, was made payable to a surgeon for travel and per diem expenses to assist in an active duty sailor's surgery at NMCSO. That transaction is considered improper. Navy policy specifically prohibits the use of purchase card transactions for travel or travel-related expenses, and the travel could have been authorized under invitational travel orders in accordance with the Joint Travel Regulation, Volume II. The use of a convenience check was improperly authorized and not identified as an improper use during subsequent approving official reviews.

**Convenience check # 170** for \$1,168.40 dated March 18, 2003, was made payable to a wholesale membership club for a mattress, flashlight, cookware set, microwave oven, shelving, and a membership card. The transaction supported branch medical clinic personnel on the remotely located San Clemente Island. The Head, Acquisitions Division authorized the purchase of the membership to meet mission-essential needs for the convenience of shopping at the wholesale membership club. The entire transaction is considered improper because Navy guidance permits the use of convenience checks only after the activity has made every attempt to use the purchase card. The items could have been purchased with the purchase card at other retail locations offering the same or similar items.

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Convenience checks must be made payable in the exact amount of purchase by the convenience check clerk after items and costs are identified. That would have required the purchaser to acquire authorization to use a convenience check, shop at the wholesale membership club to identify merchandise and costs, travel to the medical center for the check, and return to the wholesale membership club to pay for the merchandise and complete the purchase transaction. Shopping at membership warehouses, which do not accept purchase cards, perpetuates the unnecessary use of convenience checks and bypasses Navy requirements to use the checks only when the purchase card option is unavailable.

**Transactions FY03D5-54133 (MVY CC22) and FY03D5-54134 (MVY CC23)** in the amount of \$2,450 each, made on March 5, 2003, were general store purchases from a frequently used vendor. The orders were placed for 7,000 “blue linen prop stencil” at 9:29 a.m. and for 7,000 “white linen prop stencil” at 9:31 a.m. Linen prop stencils are iron-on logos used on sheets, pillowcases, and scrubs to identify laundry as NMCS D property. The cardholder intentionally split the requirement for 14,000 stencils, ordering enough of each color to stay within the micro-purchase threshold of \$2,500 and did not regard it as improper because the purchases were for two different colored items. Navy guidance specifically prohibits splitting requirements that exceed the micro-purchase limit because that may violate statutory requirements for small business participation, competition, the Service Contract Act, or Davis-Bacon Act requirements. The requirement for 14,000 stencils was not an appropriate use of the purchase card. The two transactions are considered improper and another acquisition method should have been used. In addition, the approving officer’s monthly review of cardholder transactions did not identify the split requirement transactions as needing corrective action.

**Transaction FY02D4-2025344 (LVM CC09)** in the amount of \$522.50 on August 1, 2002, was an Operating Room purchase for nine pairs of designer protective eyewear and four protective cases. The eyewear was billed, when shipped, on two separate transactions of \$367.50 and \$155.00.

We interviewed the HMD who provided us an August 22, 2003, memorandum for the record of the circumstances surrounding the review and approval for the purchase of designer protective eyewear. According to the memorandum, the request was brought to the HMD for approval by technical review personnel. According to technical review personnel, they were not comfortable approving the new item request because of the questionable price of the eyewear. The HMD conferred with the Head of the Operating Room who justified the designer protective eyewear because the then-current \$12 eyeglasses were extremely uncomfortable to wear for 8 to 10 hours a day, and extensive research revealed that only that designer’s protective eyewear met their comfort and safety criteria. That justification appears questionable considering that lost eyewear would be replaced only with less expensive generic model safety eyewear. The HMD memorandum further states that continued research identified less expensive glasses that met the safety and comfort criteria for \$7 per pair. The designer eyewear has been removed from the catalog and is no longer an authorized purchase item.

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The current cardholder was not involved in processing the new item request for the eyewear and placed the order based on a verbal authorization. The cardholder advised us that operating room staff told him they believed the more expensive designer eyewear was authorized as a morale booster for operating room staff.

Based on our interviews and documentation available for review, the need for more expensive designer protective eyewear was not justified. There was no documentation of the extensive research performed or the safety and comfort criteria used to justify the purchase. A purchase request authorizing the purchase was not available that documented the operating room requirement for the brand of safety glasses purchased. As a result, the transaction is considered abusive.

**Transaction FY03D5-95950 (NUL CC01)** in the amount of \$999.98 on March 13, 2003, was for a digital camera and photo printer for the Pediatric Intensive Care Unit (PICU). The digital camera cost \$699.99 and the photo printer cost \$299.99. The items were received March 18, 2003, and as of September 4, 2003, have been stored unused (in the original delivery box).

Justification for the camera was not documented on the purchase request. The cardholder, the approving official, and the point of contact for the purchase request are no longer assigned to NMCSO. The department head, who was also the authorizing official, was unsure of the reason for purchasing the camera and authorized the purchase because the director of the unit advised him that PICU needed the camera. The division officer advised us that current PICU photographic requirements, such as taking memorial pictures of terminally ill children and photographs used for training purposes, are satisfied by the pediatrics department and that the new camera will be used for those requirements. We were also advised that the PICU planned to assist other departments with their photographic needs, even though it was currently operating without a camera.

The digital camera has been stored with other new items purchased for the renovated PICU. We were advised by the HMD that new items for the renovated PICU should have been scrutinized to ensure that they were mission-essential requirements and that they were purchased in advance with funds set aside for that purpose. The HMD advised us that the camera was not included as a PICU item. Additionally, the camera was available for immediate use and did not need to be stored pending completion of the PICU renovation.

Based on our interviews and documentation available for review, the camera purchase was not justified because a credible need for the camera in the PICU was not established. The camera purchase is considered abusive. We do not challenge the purchase of the photo printer because it is functional as a printer with other hardware purchased for the PICU.

**Transaction FY03D6-99305 (NUL CC02)** in the amount of \$999.99 on March 13, 2003, was for a digital video camcorder for the PICU. The camcorder was received April 29, 2003, and as of September 4, 2003, has been stored unused (in the original delivery box). We were advised that this transaction was completed with transaction FY03D5-95950 for a digital camera.

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There is no purchase request available for this transaction. The cardholder and the approving official were no longer assigned to NMCS D. The department head, who was also the authorizing official, was unsure of the reason for purchasing the digital camcorder and authorized the purchase because the director of the unit advised him that PICU needed the camcorder. The division officer advised us that PICU planned to use the camcorder to record training sessions and for other training uses.

The digital camcorder has been stored with other new items purchased for the renovated PICU. We were advised by the HMD that new items for the renovated unit should have been scrutinized to ensure that they were mission-essential requirements and purchased in advance with funds set aside for that purpose. The HMD advised us that the camcorder was not scrutinized as a PICU item and its use was not dependent on a completion date of the renovated PICU.

Based on our interviews and documentation available for review, the digital camcorder purchase was not justified because a credible need for the camcorder in the PICU was not established. The camcorder purchase is considered abusive.

**Transaction FY03D2-514677 (NMK CC01)** in the amount of \$207.21 on November 19, 2002, was a Clinical Investigation Department purchase from a supermarket. The purchase was for bottled water, a deli platter, a sandwich fixing tray, chips, fruit and cheese trays, juice, cookies, and sandwich rolls for the November 20 and 21, 2002, "Antioxidant Conference." The cardholder purchased the food items identified on the November 15, 2002, purchase request, which was signed by the authorizing official.

The NMCS D APC evaluated the transaction during the semi-annual review of purchase card transactions. The APC determined that the food purchase exceeded "light snack" requirements authorized for a conference and that the prohibited food items were not mission essential. The APC also found that the transaction was an improper use of appropriated funds. Based on the APC finding, we also consider the transaction improper.

We followed up to determine if action was taken based on the APC findings. Navy guidance requires referral of questionable legality, propriety, or correctness to the head of the activity. We found that corrective action consisted of counseling the current approving official on appropriate snacks for conferences. The current approving official was not involved in this transaction. The cardholder and approving official at the time of purchase were no longer stationed at NMCS D. The authorizing official who determined which food items to purchase was not counseled and the matter was not referred to the head of the activity. We were advised by the HMD that despite the findings, the low dollar value of the transaction did not warrant further action.

We also noted that the food items were purchased before funds were approved on November 25, 2002, which created an unrecorded obligation of funds.

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Procurement and Acquisition Policy  
Director, Purchase Card Joint Program Management Office  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Commander, Naval Medical Center San Diego  
Auditor General, Department of the Navy

### **Non-Defense Federal Organization**

Office of Management and Budget  
Inspector General of the Department of Veterans Affairs

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
BUREAU OF MEDICINE AND SURGERY  
2300 E STREET NW  
WASHINGTON DC 20372-5300

IN REPLY REFER TO

6300  
Ser M82/04UN093-000269a  
4 Jun 04

## MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Department of Defense Inspector General (DODIG)  
Project Number (D2003LF-0101), Audit of Controls Over  
Purchase Cards at Naval Medical Center, San Diego -  
INFORMATION MEMORANDUM

Per Attachments 1 and 2, Naval Medical Center, San Diego  
provided comments on the subject audit in Attachment 3. The  
Bureau of Medicine and Surgery concurs with their comments.

In the interest of expediency, we are forwarding this  
response directly to your office, per Attachment 4.

Should you have any questions, please call Mr. Rick Barnish  
at (202) 762-3336 or email: [JRBarnish@us.med.navy.mil](mailto:JRBarnish@us.med.navy.mil).

  
D. D. WOOFTER  
Chief of Staff

### Attachments:

1. NAVIG email tasker of 16 Apr 04
2. DODIG memo of 13 Apr 04
3. NAVMEDCEN San Diego ltr 5200 Ser AQA/0739 of 11 May 04
4. ASSTSECNAV (RD&A) e-mail of 4 Jun 04

### Copy To:

ASSTSECNAV (RD&A)  
ASSTSECNAV (M&RA)  
CNO (N821)  
NAVINGEN-4  
NAVMEDCEN San Diego

Omitted  
Omitted  
Omitted



**DEPARTMENT OF THE NAVY**

NAVAL MEDICAL CENTER  
34800 BOB WILSON DRIVE  
SAN DIEGO, CALIFORNIA 92134-5000

IN REPLY REFER TO:

5200  
Ser AQA/ 0 7 3 9  
11 MAY 2004

From: Commander, Naval Medical Center, San Diego  
To: Chief, Bureau of Medicine and Surgery (Attn: Mr. Barnish), 2300 E.  
Street, NW, Washington, DC 20372-5300

Subj: NMCS D RESPONSE TO THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG)  
DRAFT REPORT ON THE GOVERNMENT PURCHASE CARD PROGRAM  
AUDIT (Project NO. D2003LF-0101)

Ref: (a) DOD Inspector General Draft report on the Government Purchase  
Card Program dated April 13, 2004

Encl: (1) Implementation Status Report D2003LF-0101-1a  
(2) Implementation Status Report D2003LF-0101-1b  
(3) Implementation Status Report D2003LF-0101-1c  
(4) Implementation Status Report D2003LF-0101-1d  
(5) Implementation Status Report D2003LF-0101-1e  
(6) Implementation Status Report D2003LF-0101-1f  
(7) Implementation Status Report D2003LF-0101-2  
(8) Implementation Status Report D2003LF-0101-3a  
(9) Implementation Status Report D2003LF-0101-3b  
(10) Implementation Status Report D2003LF-0101-C-a  
(11) Implementation Status Report D2003LF-0101-C-b

1. As requested in reference (a), the Naval Medical Center, San Diego submits enclosures (1) through (11) in response to the recommendations cited in the Department of Defense Inspector General Draft Report.

2. You can reach my point of contact, Commander P. Diggs, MSC, USN at (619) 532-8110 or DSN 522-8110.

  
C.B. DAVIS  
Acting

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001 OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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STATUS AS OF (DATE) REPORTED BY (ACTION OP/BUREAU/COMMAND)  
07 May 2004 Naval Medical Center, San Diego  
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ACTION OFFICER COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110 Command Evaluation & Integrity  
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IDENTIFICATION OF REPORT (NAVINGEN/COMMAND INSPECTION/AREA COORDINATION.  
(INCLUDE SERIAL AND DATE)  
DOD IG Draft Report, Project number D2003LF-0101 dated April 13, 2004  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1a  
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RECOMMENDATION: Commander Naval Medical Center shall require cardholders, approving officials, and agency program coordinator to comply with Department of the Navy eBusiness Operations Office Instructions 4200.1 and NMCSO Internal Operating Procedures for providing an audit trail to support the decision to use the card, including any special approvals that are required.  
-----

CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.) CONCUR. Naval Medical Center San Diego (NMCSO) complies with Navy eBusiness Operations Office Instructions (EBUSOPS OFFINST) 4200.1, the current version 7200.1a, and our Internal Operating Procedures. NMCSO uses Defense Medical Logistics Standard Support (DMLSS) to track the full procurement cycle of the purchase card transactions. Prime Vendor is not a mandatory source of supply for medical items, but is the preferred source. DMLSS catalog managers periodically review customer catalogs and monitor new item requests to determine if Prime Vendor would be a more suitable source of supply over the purchase card or other contracting vehicles. Catalog maintenance of all items purchased at the Command continues to be an ongoing process. The DMLSS catalog contains over 60,000 items. NMCSO has submitted a Systems Change Request (SCR) #1305856 to the DMLSS Program Office in Fort Detrick, Maryland requesting a program modification that will allow the program to "tag" one-time purchase items so that once those items are procured and received they cannot be purchased again. Until this program change is in place, we have established manual monitoring procedures to remove one-time purchase items from customer catalogs after these special items are received.  
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NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION) Expected completion June 2005

Enclosure (1)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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STATUS AS OF (DATE)                      REPORTED BY (ACTION OP/BUREAU/COMMAND)  
07 May 2004                              Naval Medical Center, San Diego  
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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110                      Command Evaluation & Integrity  
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IDENTIFICATION OF REPORT (NAVINGEN/COMMAND INSPECTION/AREA COORDINATION.  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1b  
-----

RECOMMENDATION: Commander Naval Medical Center shall require cardholders, approving officials, and agency program coordinator to comply with Department of the Navy eBusiness Operations Office Instructions 4200.1 and NMCS Internal Operating Procedures for providing appropriate documentation of receipt and acceptance with the monthly purchase card statements to the approving official.  
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CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.) DO NOT CONCUR. DMLSS not only records funding transactions, but also provides an electronic record of the complete transaction history from the initiation of the requirement to receipt documentation. DMLSS allows customers to post receipts electronically. According to EBUSIOPSOFFINST 4200.1a Ch 2, Para.6.d, it states cardholders are to "Maintain either a manual or automated log..." Vendor invoices are not required so long as DMLSS provides an electronic record of the receipt. NO ACTION NECESSARY  
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NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION)  
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Enclosure (2)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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STATUS AS OF (DATE)  
07 May 2004

REPORTED BY (ACTION OP/BUREAU/COMMAND)  
Naval Medical Center, San Diego  
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ACTION OFFICER  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110

COORDINATING ACTION (OP/BUREAU/COMMAND)  
Command Evaluation & Integrity  
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IDENTIFICATION OF REPORT (NAVINSGEN/COMMAND INSPECTION/AREA COORDINATION.  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1c  
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**RECOMMENDATION:** Commander Naval Medical Center shall require cardholders, approving officials, and agency program coordinator to comply with Department of the Navy eBusiness Operations Office Instructions 4200.1 and NMCSO Internal Operating Procedures for purchasing only mission-essential requirements and ensuring that all purchases made by the cardholders are appropriate.  
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**CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.)** CONCUR. As stated in the Draft Report, there were no unauthorized or fraudulent transactions. The 52 transactions cited with internal control weaknesses represent .2% of the total transactions at the command. All transactions questioned in the Draft Report were mission-essential. Cardholders are technicians and specialists that work in the various departments and clinics throughout the medical center. Given their familiarity with their particular purchases and how they relate to their mission, cardholders often feel the mission-essential requirement of their purchases is apparent. We are conducting training for our cardholders to electronically document the files as to the nature and requirement of the purchases. This will allow outside auditors to easily and readily inspect the numerous purchase files at this command without conducting extensive interviews. ACTION CONSIDERED COMPLETE.  
-----

NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION)  
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Enclosure (3)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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07 May 2004                              Naval Medical Center, San Diego  
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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110                      Command Evaluation & Integrity  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1d  
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**RECOMMENDATION:** Commander Naval Medical Center shall require cardholders,  
approving officials, and agency program coordinator to comply with Department  
of the Navy eBusiness Operations Office Instructions 4200.1 and NMCSO  
Internal Operating Procedures for ensuring that proper and adequate funding  
is available prior to any purchase card transaction.  
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CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED  
COMPLETE, SO STATE.)      CONCUR. The audit identified three cases where the  
proper sequences of ordering procedures were not followed, resulting in post-  
obligation fund increases. Activity Program Coordinator (APC) monthly  
reviews are designed to identify any post-obligation increase activity.  
Should such activity be found, appropriate corrective action will be taken.  
ACTION CONSIDERED COMPLETE.

-----  
NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF  
COMPLETED ACTION)

Enclosure (4)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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STATUS AS OF (DATE)                      REPORTED BY (ACTION OP/BUREAU/COMMAND)  
07 May 2004                              Naval Medical Center, San Diego  
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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110                      Command Evaluation & Integrity  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1e  
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**RECOMMENDATION:** Commander Naval Medical Center shall require cardholders, approving officials, and agency program coordinator to comply with Department of the Navy eBusiness Operations Office Instructions 4200.1 and NMCS Internal Operating Procedures for verifying the accuracy and completeness of transaction documentation prior to certifying for payment.  
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CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.) CONCUR. As with any military activity, we experience a high turnover rate of personnel due to transfers and deployments. In addition, the cardholder and approving official (AO) duties are normally collateral assignments. We hold monthly training sessions and closely monitor AO and cardholder activity to ensure they follow the proper procedures. NMCS identifies any improper transactions in its' APC monthly reviews. Disciplinary action is implemented to include: written notification and/or card suspension depending upon the nature of the violation. ACTION CONSIDERED COMPLETE.  
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NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION)  
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Enclosure (5)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110                      Command Evaluation & Integrity  
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IDENTIFICATION OF REPORT (NAVINSGEN/COMMAND INSPECTION/AREA COORDINATION.  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-1f  
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RECOMMENDATION: Commander Naval Medical Center shall require cardholders,  
approving officials, and agency program coordinator to comply with Department  
of the Navy eBusiness Operations Office Instructions 4200.1 and NMCS  
Internal Operating Procedures for reducing billing cycle limits to 20 percent  
above the largest billing statement amount over the last 12 months.  
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CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED  
COMPLETE, SO STATE.) CONCUR. In the past, Bureau of Medicine and Surgery  
conducted periodic right-sizing of billing cycle limits throughout the  
claimancy. There is now a renewed emphasis for Command APCs to monitor  
individual billing cycle limits. These reviews are conducted on a semi-  
annual basis. ACTION CONSIDERED COMPLETE.

-----  
NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF  
COMPLETED ACTION)

Enclosure (6)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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STATUS AS OF (DATE)                      REPORTED BY (ACTION OP/BUREAU/COMMAND)  
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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110                      Command Evaluation & Integrity  
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IDENTIFICATION OF REPORT (NAVINGEN/COMMAND INSPECTION/AREA COORDINATION.  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-2  
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RECOMMENDATION: Commander Naval Medical Center shall establish , in writing,  
appropriate administrative action to be initiated when policies and controls  
have been abused or ignored.  
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CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED  
COMPLETE, SO STATE.) CONCUR. EBUSOPSOFFINST 4200.1a provides detailed  
disciplinary guidelines for both civilian and military personnel who abuse or  
ignore procedures. Following these guidelines, NMCSO has established written  
procedures and sample letters that are customized based on the severity of  
abuse. ACTION CONSIDERED COMPLETE.

-----  
NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF  
COMPLETED ACTION)

Enclosure (7)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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ACTION OFFICER      COORDINATING ACTION (OP/BUREAU/COMMAND)  
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CDR DIGGS, 532-8110      Command Evaluation & Integrity  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-3a  
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**RECOMMENDATION:** Commander Naval Medical Center shall establish internal controls that are designed to prevent or detect fraud, waste and abuse of the purchase card program. At a minimum, the internal controls should include emphasis on the removal of specialty items from department catalogs after payment has been confirmed.  
-----

**CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.)** CONCUR. Catalog maintenance of all items purchased at the Command continues to be an ongoing process. The DMLSS catalog contains over 60,000 items. NMCSO has submitted a Systems Change Request (SCR) #1305856 to the DMLSS Program Office in Fort Detrick, Maryland requesting a program modification that will allow the program to "tag" one-time purchase items so that once those items are procured and received they cannot be purchased again. Until this program change is in place, we have established manual monitoring procedures to remove one-time purchase items from customer catalogs after these special items are received.  
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**NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION)** Estimated completion June 2005  
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Enclosure (8)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
IMPLEMENTATION STATUS REPORT

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ACTION OFFICER      COORDINATING ACTION (OP/BUREAU/COMMAND)  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-3b  
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RECOMMENDATION: Commander Naval Medical Center shall establish internal controls that are designed to prevent or detect fraud, waste and abuse of the purchase card program. At a minimum, the internal controls should include emphasis on a semi-annual review of departmental catalogs in order to remove unused catalog entries and screen for source of supply and reasonableness of prices.  
-----

CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED COMPLETE, SO STATE.) NON-CONCUR. Screening for source of supply and reasonableness is performed at the new item request stage. Given the limited number of catalog managers and 60,000 catalog records, screening each record on a semi-annual basis would not be a feasible or a value-added activity. Periodically, the catalog managers screen specific record categories for source of supply to ensure mandatory source is used. For example, all ink pens in the command catalog were reviewed to ensure they were procured from a NIB/NISH source. NO ACTION NECESSARY.  
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NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF COMPLETED ACTION)

Enclosure (9)

Revised

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
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ACTION OFFICER                              COORDINATING ACTION (OP/BUREAU/COMMAND)  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-C-a  
-----

RECOMMENDATION: Appendix C, discusses nine transactions considered abusive or  
improper.  
-----

CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED  
COMPLETE, SO STATE.) CONCUR - 7 items, NON-CONCUR - 2 items. See "non-concur  
items below:

a. Convenience Check #170 for \$1,168 dated March 18, 2003 to a  
wholesale membership club. The facts of this purchase were carefully  
considered and weighed personally by the Head of the Acquisitions Divisions,  
a GS-13 Contracting Officer. Given the time constraints (items had to be  
purchased that day) and the necessity to purchase six items from one location  
rather than different vendors, the Contracting Officer, exercising sound  
judgment, considered the unique circumstances and approved the purchase. She  
documented the file citing the Naval Supply authority justifying this  
purchase. As the senior civilian Contracting Officer was consulted prior to  
the purchase being approved, the proper internal controls, safeguards and  
prior evaluation procedures were in place. NO ACTION NECESSARY.

-----  
NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF  
COMPLETED ACTION)  
-----

Enclosure (10)

OPNAV FORM 5040/2 (11-68) S/N 0107-LF-774-1001      OPNAV REPORT 5040-1  
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ACTION OFFICER  
(NAME AND EXTENSION)  
CDR DIGGS, 532-8110

COORDINATING ACTION (OP/BUREAU/COMMAND)  
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IDENTIFICATION OF ACTION ITEM (RECOMMENDATION NUMBER/PARAGRAPH NUMBER)  
D2003LF-0101-C-b

-----  
RECOMMENDATION: Appendix C, discusses nine transactions considered abusive or  
improper.

-----  
CONCUR/NON-CONCUR AND CURRENT IMPLEMENTATION STATUS (IF ACTION CONSIDERED  
COMPLETE, SO STATE.) CONCUR - 7 items, NON-CONCUR - 2 items. See "non-concur  
items below:

b. Transaction FY02D4-202D4-2025344 in the amount of \$522.50, for nine  
pair of protective eyewear and four protective cases. IN this case, the  
Operating Room cardholder submitted a request for nine pair of Oakley safety  
glasses. The catalog manager returned the request to the originator for more  
justification. The Operating Room Department Head contacted the Head,  
Material Management, who is also a warranted Contracting Officer and provided  
justification for the purchase. After research and consideration for the  
unique requirements, the Head, Material Management approved the request and  
documented the decision in a memorandum for the record. The safety glasses  
were to be worn by operating room personnel who are required to wear glasses  
for long periods of time and complained of discomfort of existing safety  
glasses. Since that time, the Operating Room has found generic glasses at a  
lesser price that met the comfort requirement. Again, a senior Contracting  
Officer approved the purchase and documented the file. The proper internal  
controls, safeguards and prior evaluation procedures were in place before the  
cardholder completed the purchase. NO ACTION NECESSARY.

-----  
NEXT STEP IN IMPLEMENTING THE REQUIRED ACTION (INCLUDE ESTIMATED DATE OF  
COMPLETED ACTION)

Enclosure (11)

## **Team Members**

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Readiness and Logistics Support prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Shelton R. Young  
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